

Message Text

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PAGE 01 STATE 003661
ORIGIN EB-07

INFO OCT-01 ARA-06 ISO-00 TRSE-00 OMB-01 AID-05 FEAE-00
CIEP-01 IGA-02 XMB-02 INRE-00 CIAE-00 INR-07 NSAE-00
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DRAFTED BY EB/IFD/ODF:FHTHOMAS:BD
APPROVED BY ARA:JGRUNWALD
ARA/ECP:SHROGERS
TREASURY:BZINMAN (SUBSTANCE)
EB/FSE:MCREEKMORE (IN DRAFT)
ARA/AND:DCOX
EB/IFD/ODF:JABWINDER
LA/MRSD:PLANSDALE

-----071825Z 106439 /46

O R 071814Z JAN 77
FM SECSTATE WASHDC
TO AMEMBASSY BOGOTA IMMEDIATE
INFO AMEMBASSY KINGSTON

C O N F I D E N T I A L STATE 003661

E.O. 11652: GDS

TAGS: EFIN, IDB, EAID, ENRG, CO

SUBJECT: STATE 313925, BOGOTA 0037

1. IDB HAS CIRCULATED LOAN DOCUMENTS PROPOSING 29.5
MILLION DOLS O.C. LOAN TO COLOMBIA TO EXPAND CARTAGENA
REFINERY.

2. THE USG HAS STRONG RESERVATIONS TO LOAN PROPOSAL ON
ECONOMIC AS WELL AS POLICY GROUNDS. WE HAVE CONCLUDED
THAT THIS PROJECT IS AN INAPPROPRIATE USE OF LIMITED DEV-
ELOPMENT FUNDS. ALTERNATIVE SOURCES OF FINANCING FOR THIS
PROJECT SHOULD BE AVAILABLE.

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PAGE 02 STATE 003661

3. YOU ARE REQUESTED TO CONVEY ABOVE U.S. CONCERNS TO
APPROPRIATE HIGH-LEVEL GOC OFFICIALS, INQUIRE ABOUT GOC
MEASURES TAKEN TO OBTAIN ALTERNATIVE FINANCING, STATE
THAT USG BELIEVES IDB FINANCING INAPPROPRIATE FOR THIS
PROJECT AND ENCOURAGE GOC TO SEEK ALTERNATIVE FINANCING.

4. WE WILL BE MEETING WITH EXECUTIVE DIRECTORS OF OTHER IDB DONOR NATIONS INCLUDING CANADA, GERMANY, AND JAPAN SEEKING SUPPORT FOR OUR POSITION AND WILL ALSO CONVEY THE GIST OF OUR POSTURE TO COLOMBIAN DIRECTOR AT BANK.

5. REQUEST YOU REPORT NATURE OF GOC REACTION BY IMMEDIATE CABLE ON JANUARY 10 IF POSSIBLE.

6. THE FOLLOWING PARAGRAPHS OUTLINE SOME SPECIFIC USG RESERVATIONS ABOUT THIS PROJECT FOR USE AS APPROPRIATE.

7. THE IDB DOCUMENTS NOTE THAT THE PROJECT WILL LOSE 263.6 MILLION DOLS OVER 15-YEAR REPAYMENT TERM MAINLY BECAUSE OF COLOMBIA'S DOMESTIC PRICING POLICY FOR PETROLEUM PRODUCTS. THE LOSS FIGURE EVEN ASSUMES A DOUBLING OF DOMESTIC PRICE INCREASES FOR PETROLEUM PRODUCTS BY 1978. BANK DOCUMENT ARGUES THAT ALTERNATIVE OF DIRECT IMPORTATION OF PRODUCTS WOULD RESULT IN EVEN GREATER LOSSES TO ECOPETROL UNDER COMPARABLE ASSUMPTIONS BUT THIS QUOTE LEAST LOSS UNQUOTE ARGUMENT DOES NOT ESTABLISH SOUND RATIONALE FOR USE OF IDB SCARCE DEVELOPMENT FUNDS.

8. THE PROJECT ITSELF IS EXPECTED TO BE MODERATELY EFFICIENT IN TERMS OF TECHNOLOGY AND PRODUCTION. WHEN, FOR EXAMPLE, THE BANK ASSUMES A WORLD PRICE FOR IMPORTED CRUDE OIL AND COMPARES THIS WITH THE WORLD PRICES OF THE TYPE AND QUALITY OF THE REFINERY'S END-PRODUCT, THE INVESTMENT IN THE PROJECT WILL HAVE AN INTERNAL RATE OF RETURN (IRR) OF 10.8 PERCENT. WHILE THE IRR FIGURE IS CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 003661

ABOVE THE IDB MINIMUM OF 10 PERCENT FOR CUSTOMARY DEVELOPMENT PROGRAMS IT IS DISTRESSINGLY LOW FOR AN ENERGY PROJECT OF THIS NATURE. FURTHER, THE IRR RATE IS CALCULATED FOR OPTIMUM CONDITIONS WHICH MAY NOT PREVAIL.

9. WE NOTE GOC PLACES PRIORITY ON BECOMING SELF-SUFFICIENT IN OIL REFINING CAPABILITY BUT ALSO NOTE THERE IS SUBSTANTIAL EXCESS CAPACITY FOR OIL REFINING IN CARIBBEAN. THE PROJECT WILL, OF COURSE, HAVE LIMITED EMPLOYMENT PRODUCING EFFECT AND MINIMAL INSTITUTION BUILDING QUALITIES.

10. BROADER ISSUE OF USE OF IFI FUNDS FOR OIL REFINERIES ALSO RELEVANT. TO DATE ONLY REFINERY PROJECT APPROVED BY U.S. WAS 1973 (PREEMBARGO) BOLIVIAN OIL PROCESSING PLANT. AT TIME OF VOTE, U.S. REPRESENTATIVE INDICATED OUR SUPPORT FOR BOLIVIAN PROJECT SHOULD NOT BE CONSIDERED PRECEDENT AND IT WOULD BE INTENTION USG NOT TO SUPPORT FURTHER LENDING FOR SUCH PROJECTS IN FUTURE SINCE NATURE

OF PRODUCT, NORMALLY HIGH PAYOUT AND GOOD PROSPECTS FOR
ALTERNATIVE FINANCING PRECLUDE NEED FOR IDB TO USE SCARCE
DEVELOPMENTAL RESOURCES FOR THIS PURPOSE.

11. OVERALL WE ARE CONCERNED THAT IDB DEVELOPMENT FUNDS
BEING CONSIDERED FOR THIS PROJECT AND QUESTION PRIORITY
GOC REPORTEDLY PLACING ON IDB FINANCING. BOGOTA 0037
APTLY CITES COLOMBIA'S COMMENDABLE ABILITY TO ATTRACT
PRIVATE FINANCING FOR VIABLE PROJECTS.
KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
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Current Classification: UNCLASSIFIED
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Control Number: n/a
Copy: SINGLE
Sent Date: 07-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: FHTHOMAS:BD
Enclosure: n/a
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Expiration:
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Subject: STATE 313925, BOGOTA 0037
TAGS: EFIN, EAID, ENRG, CO, US, IDB
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